

Vietnam: Energy

19 May 2021

PC1 VN
BUY
TP upside +53.7%
Close 19 May 2022

Price	VND 33,000
12M Target	VND 50,728
Previous Target	VND 29,053
Change	+74.6%

What's new?

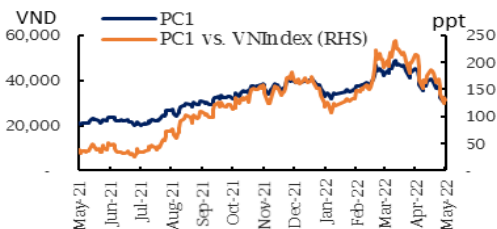
- ▶ 1Q22 PATMI increased by 69.8% YoY to VND133bn, driven by hydro & wind power.
- ▶ PC1 targets modest 2022E PAT of VND 657bn, a 14% YoY contraction. We expect it to beat this target.
- ▶ Soaring coal prices have increased the economic attractiveness of hydro & wind power – it's not just about carbon anymore.

Our view

- ▶ We reiterate our BUY recommendation and raise our target price by 74.6%.
- ▶ We revise up our 2022E PATMI forecast rose by 62% to VND 913bn (+30% YoY).
- ▶ Upside risk from the nickel mining operation and additional 200MW of wind farm capacity, neither of which are factored into our model yet.

Company profile: PC1 is the market leader in power plant, transmission line, & electrical substation construction and pole manufacturing. The company's core business is the main source of its revenue, but core business profitability is constrained by regulation. In our view, PC1's value proposition lies its higher-margin secondary operating segments—power generation and property development.

Share price performance relative to VNI



Market cap	US\$ 335mn
6M avg. daily turnover	US\$ 3.8mn
Outstanding shares	235mn
Free float	55%
FINI ownership	5.2%
Major shareholders	48.7%
Asset/equity	3.0x
2022E EV/EBITDA	6.0x
2022E P/B	1.1x
Trading platform	HOSE
FOL Room	44.8%

Financial outlook (VND bn)

Year to Dec	2021A	2022E	2023E	2024E
Sales	9,828	11,277	11,917	11,917
Op. profit	859	1,659	1,808	1,808
Net profit	695	913	1,075	1,075
EPS (VND)	2,808	3,687	4,345	4,345
EPS chg (%)	(6.8)	31.3	17.8	17.8
P/E (x)	11.8	9.0	7.6	7.2
ROE (%)	12.6	13.6	14.1	14.1
Div. yield (%)	–	–	–	–
DPS (VND)	–	–	–	–

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Bloomberg code: YUTA

PCC1 (PC1 VN)

High margin electricity sales to lead earning growth

1Q2022 PATMI soared by 69.8% YoY to VND133bn, mostly attributable to gross margin expansion. Specifically, PC1's gross margin rose by 11.6ppt to 23.7%. Operating expenses are under control as SG&A slid by 7.9% YoY to VND 54.8bn.

High-margin electricity sales are driving earnings growth. Electricity sales (c.60% gross margin) increased by 5x YoY to reach VND457bn, accounting for 31% of total 1Q22 revenue, on the addition of three new wind power plants with 144MW capacity. However, overall 1Q22 revenue slid by 4.5% YoY to VND 1,477bn as the low-margin construction business (25% of 1Q22 revenue) declined by 57% YoY to VND 367bn.

Modest 2022 guidance. PC1's 2022E revenue target is VND 11 tn, an increase of +12% YoY. However, its 2022E PAT target is VND 657bn, implying a 14% YoY contraction. PC1 sets its 2025E revenue target at USD 1bn (VND 23.3 tn), implying 25% CAGR in 2021–2025.

Hydropower is steaming; Wind is ripping. Hydropower and renewable energy (solar and wind power) are in an optimal position to take market share from coal-fired thermal power given the carbon implications as well as soaring coal prices, which have increased by almost 4x YoY. We estimate energy revenue to increase by 95% YoY to VND 1.8tn on the 144MW of new wind power capacity and increased hydropower pricing.

Model revisit. We have raised our 2022E revenue forecast by +38% to VND11,277 bn (+15% YoY) after modelling in the new property projects. We thus raise our 2022E PATMI forecast by 62% to VND 913bn (+30% YoY). In addition, we have factored in the three new hydropower plants with total capacity of 50MW next year, resulting in a +49% increase in our 2023E PATMI forecast.

We reiterate our BUY recommendation and raise our target price by 74.6% to VND 50,728, implying 6.4x 2022E EV/EBITDA.

ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES ARE LOCATED IN APPENDIX A.

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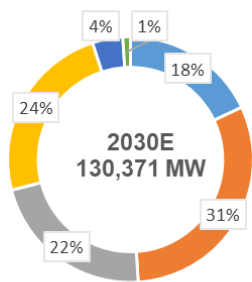
Renewable energy to get an additional jolt from soaring coal prices

As discussed in our [previous report](#), we estimate that electricity demand should grow by ~10% annually in 2021–2030 to support 6.5%–7% GDP growth based on electricity/GDP elasticity of 1.5x, which is Vietnam’s latest 5 year average.

Renewable energy should be an increasingly critical energy source for Vietnam going forward. The government is committed to achieving zero carbon by 2050, as set out in COP26. The draft Power Development Plan VIII (PDP8) outlines Vietnam’s aim to reduce coal-fired thermal power to less than 30% of total production, down from 53% in the previous version (revised PDP7), by 2030. To offset the relative decline in coal energy production, Vietnam is aiming to expand renewable energy (to account for 29% of the country’s electricity system designed capacity) and LNG gas-fired power (22%) by 2030.

PDP8 targets continued outsized growth for renewables after 2030, with green energy to account for 42% of system capacity by 2045. Even discounting the likelihood of achieving these long-term targets, the emphasis on renewable power is clear.

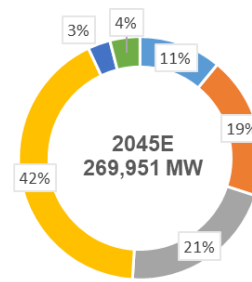
Fig. 1: Target power mix in 2030



■ Hydro ■ Thermal ■ LNG ■ Renewable Energy ■ Imported ■ Other

Source: Draft PDP8

Fig. 2: Target power mix in 2045

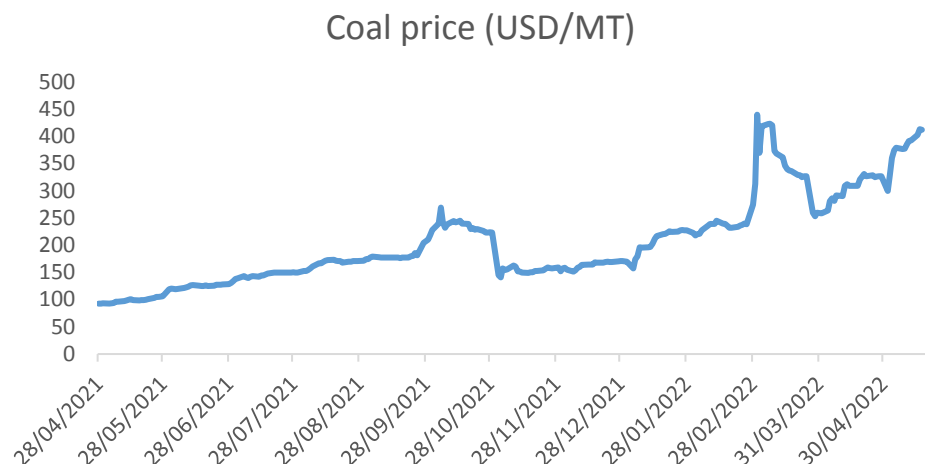


■ Hydro ■ Thermal ■ LNG ■ Renewable Energy ■ Imported ■ Other

Source: Draft PDP8

In addition, the coal price has jumped by 4x YoY to reach USD 391 per MT, which means that coal-fired thermal power, which currently accounts for ~32% of the total system designed capacity, is now a more expensive energy source.

Fig. 3: Hydropower is benefiting from high coal prices



Source: Bloomberg

As a result, EVN may opt for cheaper power sources given its limited ability to force upside in ASP in 2022 amid inflation concerns. EVN requires the approval of the Ministry of Industry and Trade (MoIT) in order to increase its selling price.

As such, hydropower and renewable energy (solar and wind power) are becoming optimal alternatives to coal from an economic perspective, at least in 2022.

Model revisit: Adding property sales for 2022

We revise up our FY22E revenue forecast by 38% compared to our previous forecast. Our new revenue forecast is VND11,277 bn (+15% YoY).

We have added VND 1,000bn in revenue from property sales, which should generate ~30% gross profit margin and ~15% net profit margin, in line with the company's estimates.

In addition, we lifted our electricity sales assumption by 6% compared to the previous forecast to VND 1,810bn due to increased demand. Hydropower is very attractive and consistently delivers ~60% gross profit margin.

Our gross margin for 2022 is 19.1%, 7.3% ppt higher than that of 2021 but slightly below the consensus of 20.4%. As a result, we raise our 2022E PATMI forecast by 62% to VND 913bn (+31% YoY), which is 39% higher than the company's target.

Fig. 4: FY2022E forecast revisions

<i>FY Dec 31 (VND'bn)</i>	2021A	2022E Previous forecast	2022E New forecast	YoY growth	New/Old forecasts
Revenue	9,828	8,168	11,277	15%	38%
<i>Construction</i>	6,714	3,832	6,040	-10%	58%
<i>Manufacturing</i>	650	774	880	36%	14%
<i>Investment property</i>	27	28	29	6%	3%
<i>Property transfer</i>	79	100	1,000	1172%	900%
<i>Electricity sales</i>	928	1,710	1,810	95%	6%
<i>Trading</i>	1,377	1,680	1,460	6%	-13%
<i>Others</i>	54	71	58	7%	-19%
Cost of goods sold	(8,673)	(6,579)	(9,125)	5%	39%
Gross profits	1,156	1,589	2,152	86%	35%
Operating expenses	(297)	(357)	(493)	66%	38%
Operating profits	859	1,232	1,659	93%	35%
Net profits	695	563	913	31%	62%

Source: YSVN

Valuation: Target price raised by 75%

We maintain our BUY recommendation PC1 and revise up our target price by 75% to VND 50,728. We have modelled in two property projects and the three hydropower plants that are coming online by 2023.

Our new target price implies 6.4x FY2023E EV/EBITDA, which is 22% below the regional peers' median multiple. As stated previously, our target price is based on an approach that applies weightings of 50% for FCF and 50% for EV/EBITDA. Notably, PC1 is the largest listed power construction company in Vietnam in terms of market cap and revenue.

Fig. 5: Target price calculation

Valuation methods	Target Price	Weight
FCFF	51,854	50%
EV/EBITDA multiple	49,602	50%
Overall	50,728	100%

Source: YSVN

Risks to our call

Inflation risk. PC1 is an Engineering Procurement and Construction (EPC) contractor for several projects that are sensitive to cost inflation in both equipment and material prices.

Upside risk: Nickel mining business. PC1 owns 57.3% of a nickel mining company in Cao Bang province that owns the third largest nickel ore resource in Vietnam. The mine should be operational by 2023 and should benefit from soaring nickel prices over the longer term. Nickel is currently trading at ~USD 26,300 per MT, almost double the 5-year average of ~USD 14,000 per MT.

Upside risk: An additional 200 MW wind power capacity by 2025. PC1 targets 350MW of designed wind farm capacity by 2025, up from the current 148MW. We have not factored this into our model, suggesting a potential source of upside for our longer term forecasts.

PROFIT AND LOSS (VND bn)					
FY Dec 31 (VND'bn)	2020A	2021A	2022E	2023E	2024E
Revenue	6,657	9,828	11,277	11,917	12,092
Construction	3,041	6,714	6,040	6,394	6,652
Manufacturing	824	650	880	954	1,022
Investment property	21	27	29	30	31
Property transfer	835	79	1,000	1,025	655
Electricity sales	748	928	1,810	1,951	2,122
Trading	1,122	1,377	1,460	1,504	1,548
Others	66	54	58	60	63
Cost of goods sold	(5,504)	(8,673)	(9,125)	(9,588)	(9,744)
Gross profits	1,153	1,156	2,152	2,329	2,349
Operating expenses	(335)	(297)	(493)	(521)	(529)
Operating profits	818	859	1,659	1,808	1,820
Net interest expenses	(210)	(40)	(424)	(371)	(327)
Net investments Income	18	86	-	-	-
Net other incomes	17	(8)	14	14	15
Pretax profits	643	896	1,248	1,452	1,508
Income taxes	(105)	(132)	(152)	(185)	(187)
Minority interests	32	69	183	191	186
Net profits	506	695	913	1,075	1,134
Core earnings	506	695	913	1,075	1,134
EBITDA	1,097	1,223	2,173	2,424	2,436
EPS (VND)	3,012	2,808	3,687	4,345	4,583

KEY RATIOS

	2020A	2021A	2022E	2023E	2024E
Growth (%YoY)					
Sales	13.9	47.6	14.7	5.7	1.5
Construction	1.3	120.8	(10.0)	5.9	4.0
Manufacturing	(16.0)	(21.1)	35.5	8.3	7.1
Investment property	13.4	n/a	n/a	n/a	n/a
Property transfer	330.1	(90.6)	1,172	2.5	(36.1)
Electricity sales	35.9	24.1	95.0	7.8	8.8
Trading	12.4	22.7	6.1	3.0	2.9
Others	(33.7)	(18.3)	7.1	4.0	4.0
Operating profit	38.4	5.0	1	0	0
EBITDA	45.1	11.5	77.6	11.6	0.5
Net profit	42.0	37.4	31	18	5
EPS (VND)	34.7	(6.8)	31	18	5
Profitability ratio (%)					
Gross margin	17.3	11.8	19.1	19.5	19.4
Operating margin	12.3	8.7	14.7	15.2	15.1
EBITDA margin	16.5	12.4	19.3	20.3	20.1
Net margin	7.6	7.1	8.1	9.0	9.4
ROA	5.3	4.7	5.1	6.4	6.5
ROE	11.9	12.6	13.6	14.1	13.1
Stability					
Net debt/equity (x)	46.6	105.1	74.3	45.2	23.6
Int. coverage (x)	3.4	2.7	3.7	4.6	5.1
Int.&ST debt coverage(x)	0.8	0.5	1.3	7.6	10.6
Cash conversion days	86.4	47.6	36.0	28.6	26.8
Current ratio (X)	1.5	1.1	0.9	1.2	1.5
Quick ratio (X)	1.3	1.0	0.7	0.9	1.1
Net cash (VND bn)	(2,219)	(6,601)	(5,302)	(3,681)	(2,175)
Efficiency					
Days receivable outstanding	78	73	67	53	50
Days inventory outstanding	72	35	41	46	50
Days payable outstanding	64	60	72	71	72

Source: Company data, Yuanta Vietnam

BALANCE SHEET (VND bn)					
FY Dec 31 (VND'bn)	2020A	2021A	2022E	2023E	2024E
Total assets	10,724	18,687	16,831	16,972	17,726
Cash & cash equivalents	1,476	2,292	382	1,207	2,334
ST Investment	63	144	144	144	144
Accounts receivable	3,421	3,124	2,209	1,988	2,012
Inventories	750	904	1,125	1,313	1,335
Other current assets	57	126	122	122	122
Net fixed assets	3,804	10,160	9,473	10,872	10,473
Others	1,154	1,937	3,376	1,325	1,306
Total liabilities	5,961	12,406	9,693	8,823	8,511
Current liabilities	3,744	5,799	4,233	3,950	4,017
Accounts payable	1,099	1,756	1,825	1,918	1,949
ST debts	1,586	2,800	737	529	529
Long-term liabilities	2,218	6,607	5,460	4,873	4,494
Long-term debts	2,171	6,238	5,091	4,504	4,124
Others	46	370	369	369	369
Shareholder's equity	4,763	6,281	7,138	8,149	9,215
Share capital	1,912	2,352	2,352	2,352	2,352
Treasury stocks	-	-	-	-	-
Others	256	333	333	333	333
Retained earnings	1,102	1,305	2,163	3,174	4,241
Minority interest	782	1,580	1,580	1,580	1,580

CASH FLOW (VND bn)

FY (VND'bn)	2020A	2021A	2022E	2023E	2024E
Operating cash flow	(107)	1,943	2,807	1,798	1,509
Net income	505	695	913	1,075	1,134
Dep. & amortization	186	299	539	641	641
Change in working capital	(203)	917	1,194	(42)	21
Others	(596)	32	162	124	(288)
Investment cash flow	(14)	(6,846)	(1,508)	(177)	(2)
Net capex	(1,576)	(5,677)	149	(2,040)	-
Change in LT investment	586	(784)	(1,439)	2,051	19
Change in other assets	976	(385)	(218)	(188)	(21)
Cash flow after invt.	(121)	(4,903)	1,299	1,621	1,506
Financing cash flow	1,030	5,719	(3,209)	(795)	(379)
Change in share capital	319	440	-	-	-
Net change in debt	711	5,279	(3,209)	(795)	(379)
Change in other LT liab.	-	-	-	-	-
Net change in cash flow	908	816	(1,910)	826	1,127
Beginning cash flow	568	1,476	2,292	382	1,207
Ending Cash Balance	1,476	2,292	382	1,207	2,334

KEY METRICS

	2020E	2021E	2022E	2023E	2024E
PE (x)	11.0	11.8	9.0	7.6	7.2
Diluted PE (x)	11.0	11.8	9.0	7.6	7.2
PB (x)	1.1	1.2	1.1	1.0	0.8
EBITDA/share	6,884	5,201	9,238	10,307	10,357
DPS (VND)	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-
EV/EBITDA (x)	6.8	11.7	6.0	4.7	4.1
EV/EBIT (x)	9.2	16.7	7.9	6.3	5.5

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